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SIPDIS  
NOFORN

FOR THE SECRETARY FROM CHARGE DANIEL A. CLUNE

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TAGS: [OVIP](#) [RICE](#) [CONDOLEZZA](#) [OTRA](#) [PREL](#) [AS](#)

SUBJECT: SCENESETTER FOR SECRETARY RICE'S VISIT TO PERTH,  
JULY 24-25

Classified By: CDA Daniel A. Clune. Reasons: 1.4(b), (d)

SUMMARY:

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¶1. (C/NF) Kevin Rudd, who was sworn in on December 3, 2007, as the first Australian Labor Party prime minister in nearly 12 years, has moved quickly to implement domestic reforms and to give substance to a three-pronged foreign policy based on the primacy of the treaty alliance with the United States, greater commitment to multilateral organizations, and deeper engagement with Asia. Rudd has delivered on campaign promises to roll back the previous government's controversial industrial relations legislation, sign the Kyoto Protocol and withdraw Australian combat troops from Iraq, while maintaining Australia's combat commitment to Afghanistan "for the long haul." He issued a historic apology to Australian Aborigines on the first day of the new Parliament, announced a new development pact with the Pacific Islands, and swiftly dispatched troops to Timor-Leste in February after the attempted assassination of President Ramos Horta. Eight months into his administration, however, Rudd's record popularity following the Australian Labor Party's (ALP) resounding election victory over the conservative Liberal/National Coalition government of John Howard has begun to decline. Domestically, while the economy continues into its 17th straight year of growth, Rudd is grappling to prevent a resurgence of inflation along with the challenges of a prolonged drought and the need to address climate change by imposition of a complicated and politically fraught emissions trading system beginning in 2010.

¶2. (C/NF) Despite his background as a former diplomat and Opposition foreign affairs spokesperson, Rudd made some early missteps with India and Japan, and his failure to consult with international stakeholders, including the United States, before announcing major foreign policy initiatives on regional architecture and nonproliferation/disarmament generated additional criticism. He signaled a determination during the election campaign to be a more critical partner of the United States than his predecessor, tapping into widespread unease over the extent of U.S. influence on Australia's foreign policy, particularly over Iraq. An advocate of "middle power diplomacy," Rudd can be expected to continue to challenge the United States to do more on climate change, arms control and disarmament. Policy differences aside, however, Rudd is strongly committed to Australia's alliance with the United States, and his endorsement of ongoing collaboration with the United States across the broad range of shared interests highlights Australia's determination to be a reliable partner. END SUMMARY

U.S. ALLIANCE

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¶3. (SBU) Support for the U.S. alliance, underpinned by the

1951 Australia-New Zealand-United States (ANZUS) Treaty, is foremost among the three pillars of Rudd's foreign policy (the others are cooperative engagement with multilateral organizations such as the UN and engagement with Asia). Rudd has made clear Australia's commitment to the alliance and was quick to reach out to the United States in his election night victory speech - the only foreign country he mentioned. As you know, he met with President Bush in Washington, D.C. on Qyou know, he met with President Bush in Washington, D.C. on his first major international trip.

¶4. (C/NF) Rudd stressed in his election campaign that he would be more independent from the United States than his predecessor, John Howard, who was perceived by the Australian public to have been in lockstep with President Bush over such unpopular issues as Iraq. One area where the Rudd government's policy diverges somewhat from ours is climate change, a topic that resonates strongly in Australia where many see a direct causal link with a series of recent, very severe droughts. PM Rudd ratified the Kyoto Protocol within hours of being sworn in, and is committed to implementing an emissions cap and trade system beginning in 2010. Another area in which there appears to be an emerging change of emphasis is in arms control and disarmament. Rudd has established an International Commission on Nuclear Nonproliferation and Disarmament, co-chaired by Japan, with a declared focus on nuclear disarmament that we have cautioned should not come at the expense of nonproliferation efforts.

#### ECONOMY

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¶5. (SBU) Rudd's extended political honeymoon with the public has begun to fade as his government confronts some of the more contentious political and economic realities. Rudd's principal economic challenge is rising inflation, attributed mainly to capacity constraints, particularly labor, as Australia continues its 17th consecutive year of growth, thanks largely to a commodities boom fueled by China and India. The Reserve Bank of Australia raised interest rates for the fourth time in eight months at the beginning of March, part of a trend that has pushed up variable rate mortgages and exacerbated the problem of housing affordability for Australia. Moreover, sharply rising gas prices -- now more than six dollars a gallon -- have contributed to declining consumer confidence. Nonetheless, unemployment is still near 33-year lows, labor participation is at all-time highs, and all signs point to significant increases in resource prices that will ripple through the Australian economy.

¶6. (SBU) The centerpiece of our close bilateral economic relations is the U.S.-Australia Free Trade Agreement, which went into effect in January 2005. The U.S. enjoys a \$10 billion trade surplus with Australia, our third-largest in the world. We are Australia's largest economic partner - the third largest trading partner (after China and Japan), and by far the largest foreign investor in Australia. Australia is our 14th-largest trading partner, and the bulk of Australian overseas investment flows to the United States.

#### SOME MISSTEPS ON FOREIGN POLICY

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¶7. (C/NF) While Rudd served as a diplomat early in his career and is the only Western world leader who is fluent in Mandarin, his government has made some early misjudgments in the foreign affairs area. Foreign Minister Smith angered India with his public announcement, made while standing next to his Chinese counterpart, that Australia would no longer support a Quadrilateral Strategic Dialogue with India -- a short-lived offshoot of the Trilateral Strategic Dialogue (U.S.-Japan-Australia) -- in deference to China's sensitivities. Rudd irritated Japan with his government's threats to take legal action against Japanese whaling, coupled with release of GOA photographs of Japan's whaling activities, and his failure to include Japan, a major security and trade partner, on his first major overseas trip.

Moreover, Rudd encountered criticism and raised eyebrows for the hasty manner in which he rolled out two major foreign policy initiatives in June. His vision for a European Union-style Asia Pacific Community by 2020, unveiled on June 4, and his June 9 announcement that Australia would establish an International Commission on Nuclear Nonproliferation and Disarmament and host an international conference to shape the outcome of the 2010 Nuclear Nonproliferation Treaty Review Conference, were both launched without internal vetting or consultation with the international stakeholder countries whose support would be needed for the success of these undertakings. Senior officials have ascribed the lapse to Rudd's rush to fulfill foreign policy promises made during the election campaign and the "talismanic" importance of nuclear disarmament to the Australian Labor Party, but Rudd's inclination to rely on his small inner circle of advisors rather than on his bureaucracy, and his evident need to dominate the headlines may also explain his actions.

#### COMMITMENT TO MULTILATERAL ORGANIZATIONS

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¶8. (C) To further the GOA's engagement with multilateral organizations, the second pillar of his foreign policy, PM Rudd announced Australia would seek a seat on the UN Security Council for the 2013-2014 term, and he has traveled to Brussels to reinvigorate Australia's ties with the European Union. While in opposition, the ALP supported international military action to overthrow the Taliban in Afghanistan in 2002 but opposed the invasion of Iraq, partly because the latter action lacked a UN mandate. Rudd's vision for an EU-like Asia Pacific Community by 2020 also builds on his commitment to address international challenges through multilateral fora.

#### DEFENSE COOPERATION

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¶9. (C/NF) The Rudd government has ordered a comprehensive review of defense policy, including the review of some major defense acquisitions from the United States, that has slowed or postponed bilateral cooperation in some areas, such as missile defense. While the Defence White Paper will not be completed until at least March 2009, we have been assured privately not to expect surprises in the overall strategic assessment, and we expect defense cooperation to proceed with little interruption. We can expect Australia's continued contributions to military operations targeting the Taliban and al-Qaeda in Afghanistan, and a continued non-combat role in Iraq. The small size of its military - 52,000 personnel - which is beset with recruitment and retention problems, and demands of deployments elsewhere mean Australia will be hard pressed to increase substantially the level of its deployments for some time to come. Despite this, we are confident Australia will remain one of our closest allies and most reliable security partners for the foreseeable future, and expect the GOA to remain the large consumer of U.S. defense hardware and technology in the Asia-Pacific area.

¶10. (SBU) The United States Senate is currently reviewing the U.S.-Australia Defense Cooperation Treaty and accompanying Implementing Arrangements, although the parallel U.K. agreement leads any progress on the Australian document. The Australian Defence Materiel Organisation estimates a 50 percent reduction in export licenses required following treaty implementation.

¶11. (S/REL AUS) As discussed with the Howard government during your visit to Sydney with President Bush in September 2007, and as reconfirmed during the 2008 AUSMIN meeting, our two governments have agreed to strengthen combined capabilities and U.S. military access to Australia, referred to as Enhanced Defense Cooperation. Both sides subsequently agreed to focus on three areas: enhancing the Joint Combined Training Capability; prepositioning equipment for Humanitarian Assistance and disaster relief (HA/DR)

operations in the region; and strengthening Intelligence, Surveillance and Reconnaissance (ISR) access and cooperation.

#### IRAQ

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¶12. (C/NF) The approximately 515 Australian combat troops comprising the Overwatch Battle Group in southern Iraq, plus the 100-strong Australian Army Training Team, were withdrawn in June, leaving in place approximately 1,000 defense personnel, including a 100-man security detachment for its diplomatic mission in Baghdad, and naval and air patrol assets based in neighboring countries that support operations in both Iraq and Afghanistan. Beyond the redeployment of the combat element, the Australians plan to remain engaged in Iraq in reconstruction and other non-combat roles, and the Australian government is considering possible additional training and technical assistance. We have asked Australia to contribute specialists to serve in U.S. PRTs, for example.

Despite the withdrawal of Australian combat forces from Iraq, PM Rudd agreed in July 2008 to allow Australian exchange officers serving in units of other countries including the U.S. to deploy to Iraq in combat and combat support roles with those units.

#### AFGHANISTAN

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¶13. (C/NF) Unlike Iraq, there has been bipartisan support in Australia for its troop commitment in Afghanistan, and the Rudd government has reaffirmed that it plans to remain in Afghanistan for the "long haul." Support for Australia's combat role in Afghanistan is linked in part to the presence of al-Qaeda and the Taliban, who trained bombers that killed 202 civilians, including 88 Australians, in Bali in 2002; the impact of the Afghan drug trade on Australia; and to the fact that Australia's military engagement in Afghanistan was authorized by UN Security Council resolutions. The Australian government has agreed to deploy an Operational Mentoring and Liaison Team (OMLT) to help train the Afghan National Army and to provide additional civilian development assistance beginning in September, but is not currently contemplating increasing its combat forces. Six Australian soldiers have been killed in Afghanistan since 2002, including three Special Air Service Regiment (SAS) troops from the Campbell Barracks in Perth, a site you will visit on July 25. The most recent casualty was Sean McCarthy, a signaller serving with the Special Operations Task Group, killed by an IED while on patrol in southern Afghanistan on July 8. (Another Perth-based SAS soldier died in Kuwait during a training exercise in 2005.)

#### U.S.-INDIA CIVIL NUCLEAR DEAL

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¶14. (C/NF) Rudd has declared Australia will not export uranium to India because it has not signed the Nuclear Nonproliferation Treaty. He has privately signaled to us, however, that Australia likely will support an exception for the U.S.-India civil nuclear agreement in the Nuclear Suppliers Group and IAEA, an assurance he repeated to the Indian Foreign Minister in June.

#### CHINA

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¶15. (C/NF) An important dynamic in the U.S. relationship with a new Labor government is China. China is now Australia's largest trading partner and Rudd views the Chinese export market as a critical component of Australia's growth now and well into the future. PM Rudd's background as a Mandarin-speaking former diplomat who served in Beijing has led some to believe that he might be overly sensitive towards China, but he has demonstrated a balanced view. Rudd shares our position that China needs to be encouraged to be a responsible stakeholder in the international system, but cautions that the international community needs to be prepared for the possibility that China's rise might take a "malign" turn. Moreover, the GOA shares our concerns about China's military modernization, transparency, and human rights abuses. Rudd spoke out strongly to protest China's

crackdown in Tibet during his first official visit to China.

CLUNE